

Message Text

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44

ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 IO-13 /097 W

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R 040626Z SEP 76

FM AMEMBASSY ISLAMABAD

TO YECSTATE WASHDC 7524

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

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E.O. 11652: N/A

TAGS: EFIN, PK,

SUBJECT: BLACK MONEY TAX DRIVE A RELATIVE SUCCESS

1. OVER PAST TWO MONTHS, GOP HAS BEEN WAGING AN INTENSIVE PUBLIC CAMPAIGN TO COLLECT ADDITIONAL REVENUE BY OFFERING A TAX AMNESTY TO RECIPIENTS OF BLACK MONEY IN RETURN FOR THEIR DECLARING THIS INCOME AND PAYING A TAX ON IT AMOUNTING TO 30 PERCENT. BLACK MONEY IS DEFINED AS INCOME NOT DECLARED FOR TAX PURPOSES. THE CAMPAIGN CLOSED ON AUGUST 31. TWO DAYS AFTER, FINANCE MINISTER HANIF ANNOUNCED THAT THE AMOUNT OF BLACK MONEY DECLARED HAD COME TO 1.46 BILLION ON WHICH RS. 270 MILLION IN TAX HAD ALREADY BEEN PAID (OUT OF TOTAL SUCH TAX COLLECTIONS EXPECTED OF RS. 438 MILLION). IF RS. 438 MILLION IS COLLECTED, IT WILL EQUAL THREE PERCENT OF ANTICIPATED REVENUES IN THIS FISCAL YEAR.

2. THIS IS NOT THE FIRST TIME PAKISTAN HAS ATTEMPTED TO SURFACE AND TAX BLACK MONEY THROUGH CARROT-AND-STICK
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TAX AMNESTY OFFERS. IN 1958 AND 1969, SIMILAR CAMPAIGNS

WERE WAGED LEADING TOMCECLARATIONA OF BLACK MONEY INCOME
IN THEN WEST PAKISTAN OF RESPECTIVELY RS. 1.1 BILLION
AND RS. 780 MILLION.

3. COMMENT: WHILE A THREE PERCENT INCREASE IN REVENUES
MAY NOT ON ITS FACE SEEM VERY SIGNIFICANT, IT IS STILL NO
MEAN ACHIEVEMENT SINCE TAX REVENUES LAST YEAR INCREASED A
MERE FIVE PERCENT OVER THE PERVIOUS YEAR WHILE INFLATION
RAN ABOUT SEVEN PERCENT. WE UNDERSTAND, HOWEVER, THAT
THE GOVERNMENT HAD HOPED FOR DECLARATIONS DOUBLE THE
AMOUNT WHICH CAME FORWARD, ALTHOUGH BEFORE THE AUGUST 31
CLOSING DATE MOST BUSINESS OPINION REACHING THE EMBASSY
POINTED TO LITTLE BLACK INCOME LIKELY TO BE DECLARED AT
ALL. REPORTS FROM KARACHI INDICATE THAT AS THE DEADLINE
APPROACHED THERE WAS AN INCREASE IN CAPITAL FLIGHTS
OUT OF THE COUNTRY AND SOME DECLINE IN BANK DEPOSITS
RELATED BOTH TO THE THREAT OF DIRE GOVERNMENT ACTION
AGAINST HOLDERS OF UNDECLARED BLACK MONEY AND ALSO TO
LACK OF PRIVATE SECTOR CONFIDENCE AS A RESULT OF THE
JULY NATIONALIZATIONS.

4. NOT MENTIONED IN GOP STATEMENTS DURING THE CAMPAIGN
WAS THAT MUCH OF THE STIMULUS FOR IT CAME FROM IBRD
INSISTENCE, AMONG ITS
CONDITIONS TO ITS RECENT \$50
MILLION PROGRAM LOAN, THAT PAKISTAN DO BETTER IN TAX
COLLECTION. THE CAMPAIGN SUGGESTS IT CAN.
BYROADE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INCOME TAXES, BLACK MARKETS
Control Number: n/a
Copy: SINGLE
Draft Date: 04 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ISLAMA09313
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760336-0658
From: ISLAMABAD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760990/aaaaczhx.tel
Line Count: 89
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 21 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 JUN 2004 by BoyleJA>; APPROVED <14 OCT 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BLACK MONEY TAX DRIVE A RELATIVE SUCCESS
TAGS: EFIN, PK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006